



**Australian Agricultural Company Limited**

**ABN 15 010 892 270**

## **FINANCIAL REPORT**

**For the half-year ended  
30 September 2018**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the financial report for the year ended 31 March 2018 and any public announcements made by Australian Agricultural Company Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

# DIRECTORS' REPORT

Your Directors present their report on the Group consisting of Australian Agricultural Company Limited and the entities it controlled (AACo) for the half-year ended 30 September 2018.

## DIRECTORS

The following persons were Directors of Australian Agricultural Company Limited during the half-year and up to the date of this report. Directors were in office for this entire period unless otherwise stated.

Donald McGauchie AO (Non-executive Chairman)

Hugh Killen (Managing Director)

Stuart Black AM (Non-executive Director)

David Crombie AM (Non-executive Director)

Tom Keene (Non-executive Director)

Dr Shehan Dissanayake (Executive Director)

Anthony Abraham (Non-executive Director)

Neil Reisman (Non-executive Director)

Jessica Rudd (Non-executive Director)

## OPERATING AND FINANCIAL REVIEW

### About AACo

The Australian Agricultural Company (AACo) is Australia's largest integrated beef producer with a heritage dating back to 1824. The Company owns and operates a strategic balance of properties, feedlots and farms, comprising approximately 6.4 million hectares of land which equates to roughly 1 per cent of Australia's land mass. AACo specialises in the production of premium branded beef at scale through its strategic portfolio of market-leading brands, selling to a range of customers and markets around the world.

### Key Financial Indicators Used by Management

	6 MONTHS TO 30 SEP 2018 \$'000	6 MONTHS TO 30 SEP 2017 \$'000
Meat sales	146,426	169,898
Cattle sales	72,771	27,331
Administration costs	(15,871)	(14,217)
Operating Profit <sup>(1)</sup>	24,841	6,849
Statutory EBITDA loss <sup>(1)</sup>	(82,886)	(36,485)
Statutory EBIT loss	(88,730)	(45,504)
Net loss after tax	(68,396)	(37,669)
Net cash inflow/(outflow) from operating activities	29,644	(47,475)

<sup>(1)</sup> Refer to Page 5 for the definition of Statutory EBITDA and Operating Profit, both of which are considered non-IFRS information and have not been reviewed by the Company's auditors.

The measure of Operating Profit is a key indicator which is used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised livestock and inventory valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Hence the Company believes that external stakeholders benefit from this metric being reported.

Whilst Statutory EBITDA was a loss of \$82.9 million in H1FY19 (\$36.5 million loss in H1FY18), Operating Profit was \$24.8 million (\$6.8 million profit in H1FY18). Operating Profit does not include unrealised livestock and inventory valuation adjustments, while Statutory EBITDA includes these.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Sales and Marketing

In the first half of the 2019 financial year, Luxury/Prestige beef average pricing per kilogram has declined whilst Premium average pricing increased. Luxury/Prestige beef was impacted by higher volumes and macro factors, whilst Premium prices were impacted by changes in the mix of markets sold into. Declines seen in Premium and Livingstone beef volumes reflect the decisions made to suspend the 1824 brand and Livingstone operations.

	6 MONTHS TO 30 SEP 2018	6 MONTHS TO 30 SEP 2017
Luxury/prestige beef revenue – \$ mil	93.9	77.9
Luxury/prestige beef kgs sold – mil kg CW <sup>(1)</sup>	7.1	5.0
Luxury/prestige beef sold – \$/kg CW	13.16	15.58
Premium beef revenue – \$ mil	21.3	35.9
Premium beef kgs sold – mil kg CW	2.1	3.8
Premium beef sold – \$/kg CW	10.29	9.44
Livingstone beef revenue – \$ mil	27.8	56.1
Livingstone beef kgs sold – mil kg CW	5.0	13.1
Livingstone beef sold – \$/kg CW	5.59	4.28
Cattle sales – mil kg LW <sup>(1)</sup>	30.4	7.8
Cattle revenue – \$mil	72.8	27.3

<sup>(1)</sup> LW – live animal weight, CW – carton weight containing saleable boxed meat.

### Production

Kilograms produced is a measure of the number of kilograms of live weight grown on cattle throughout the breeding, backgrounding and feedlot operations of the Company during the period.

Cost of production is a measure of the operating costs incurred to produce a kilogram of live weight on cattle throughout the breeding, backgrounding and feedlot operations of the Company. During the period, the cost of production increased by 18 per cent on the previous corresponding period due to extreme seasonal conditions resulting in higher operating costs.

	6 MONTHS TO 30 SEP 2018	6 MONTHS TO 30 SEP 2017
Kilograms produced – mil Kg LW	41.5	37.8
Cost of production – \$/kg LW	2.52	2.13

### Statutory Financial Results

The H1FY19 results include a Statutory EBITDA loss of \$82.9 million (H1FY18 loss of \$36.5 million), driven by \$113.6 million of non-cash market value movements in livestock. Underlying Wagyu numbers have increased as the Company continues to invest in its core herd assets, whilst cattle sales occurring during H1FY19 relate to the composite herd.

Operating cash inflows of \$29.6 million were achieved in H1FY19 compared with operating cash outflows of \$47.5 million in H1FY18, predominately due to fewer cattle purchases into Livingstone and increased composite cattle sales.

Cattle expenses have increased from \$55.6 million in H1FY18 to \$85.9 million in H1FY19 as a result of extreme seasonal conditions.

Livingstone Beef operations were suspended in July 2018 and the accumulated impairment recognised at 31 March 2018 remains unchanged. The Board and management continue to review various strategic options for the future of the Livingstone Beef operations.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Risk Management

The Company is committed to identification, measurement and management of material business risks. The Company's breeding and sales programs to date have produced a herd with the right genetic and age profile to deal with the current and future geographic, weather and market conditions. Day-to-day production risks are managed by station managers and overseen by relevant members of the Leadership Team. Appropriate insurance coverage is maintained in respect of the business, properties and assets. Price risks are managed, where possible, through forward sales of branded beef and over-the-counter foreign exchange derivatives.

### Reconciliation of Operating Profit to Statutory Profit

Operating Profit is the key indicator used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised livestock and inventory valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Operating Profit assumes movement in livestock and inventory volume at the period's cost of production, whilst Statutory EBITDA results include revaluations based on market prices for inventory movements.

A reconciliation of Operating Profit to Statutory EBITDA and Net Loss After Tax is provided below:

	6 MONTHS TO 30 SEP 2018 \$'000	6 MONTHS TO 30 SEP 2017 \$'000
Operating Profit	24,841	6,849
Reverse: Movement in inventory at cost of production	3,391	(33,428)
Other income/expenses	2,471	(494)
Change in livestock value	(113,589)	(9,412)
<b>Statutory EBITDA<sup>(1)</sup> loss</b>	<b>(82,886)</b>	<b>(36,485)</b>
Depreciation and amortisation	(6,024)	(9,019)
Gain on equity investments	180	-
<b>Statutory EBIT loss</b>	<b>(88,730)</b>	<b>(45,504)</b>
Finance costs	(8,639)	(8,151)
Income tax benefit	28,973	15,986
<b>Net loss after tax</b>	<b>(68,396)</b>	<b>(37,669)</b>

### Capital Structure

The Company's gearing ratio has increased to 26.8 per cent as at 30 September 2018 compared to 26.3 per cent as at 31 March 2018.

	30 SEP 2018 \$'000	31 MAR 2018 \$'000
Current interest-bearing loans and borrowings	2,472	3,025
Non-current interest-bearing loans and borrowings:		
Obligations under finance leases	3,484	4,547
Bank loan facility <sup>(2)</sup>	330,700	350,200
Bank guarantees	1,454	1,454
Cash	(6,007)	(11,218)
<b>Net debt</b>	<b>332,103</b>	<b>348,008</b>
<b>Equity employed</b>	<b>905,205</b>	<b>977,520</b>
<b>Gearing (net debt / net debt + equity)</b>	<b>26.8%</b>	<b>26.3%</b>

<sup>(1)</sup> EBITDA is defined by the Company as earnings before interest, tax, depreciation, amortisation, impairment, gains/losses on equity investments and changes in the fair value of property.

<sup>(2)</sup> The gearing ratio is calculated utilising the face value of the bank loan facility.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Net Tangible Assets

The Company's net tangible assets per share was \$1.50 as at 30 September 2018, compared to \$1.62 as at 31 March 2018. Net tangible assets of the Company include leasehold land assets.

### Dividends

There were no dividends declared or paid during the six months to 30 September 2018, and therefore the Company's Dividend Reinvestment plan (DRP) was inactive throughout the period.

The Company is committed to the reinstatement of dividends and has previously foreshadowed that the Directors will review dividend policy and payments on a return to sustainable and significant operating profit and positive operational cashflows.

### Business Strategies, Likely Developments and Expected Results

The Board reiterates its commitment to increasing shareholder value through incremental improvements to Return on Capital Employed (ROCE) over time. The goal is to improve the quantity and quality of the Company's earnings by increasing the Company's exposure to premium branded beef prices which are underpinned by rising incomes in both the developed and developing world. The medium term strategy will focus on optimising our supply chains, implementing a differentiated branding strategy, and investing in innovation and technology.

## SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

There have been no significant events after the balance date which require disclosure in the financial report.

## ROUNDING

Amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars for presentation where noted (\$'000). This has been completed under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

Signed in accordance with a resolution of the Directors.



D. McGauchie AO

Chairman



Hugh Killen

Managing Director & CEO

Sydney

20 November 2018

# AUDITOR'S INDEPENDENCE DECLARATION




## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Agricultural Company Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Agricultural Company Limited for the half-year ended 30 September 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

  
KPMG

  
Simon Crane  
Partner

Brisbane  
20 November 2018

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement

For the half-year ended 30 September 2018

	6 MONTHS TO 30 SEP 2018 \$'000	6 MONTHS TO 30 SEP 2017 \$'000
Meat sales	146,426	169,898
Cattle sales	72,771	27,331
	219,197	197,229
Cattle fair value adjustments	43,960	68,260
	263,157	265,489
Cost of meat sold	(134,880)	(163,052)
Deemed cost of live cattle sold	(66,076)	(26,510)
Cattle expenses	(85,868)	(55,608)
<b>Gross margin</b>	<b>(23,667)</b>	<b>20,319</b>
Other income	6,957	1,801
Employee expenses	(31,552)	(28,729)
Administration costs	(15,871)	(14,217)
Other operating costs	(15,479)	(13,120)
Property costs	(3,274)	(2,539)
Gain on equity investments	180	-
Depreciation and amortisation	(6,024)	(9,019)
<b>Loss before finance costs and income tax</b>	<b>(88,730)</b>	<b>(45,504)</b>
Finance costs	(8,639)	(8,151)
<b>Loss before income tax</b>	<b>(97,369)</b>	<b>(53,655)</b>
Income tax benefit	28,973	15,986
<b>Net loss after tax</b>	<b>(68,396)</b>	<b>(37,669)</b>
<b>EARNINGS PER SHARE FOR LOSS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b>	<b>CENTS</b>	<b>CENTS</b>
Basic earnings per share	(11.45)	(6.46)
Diluted earnings per share	(11.45)	(6.46)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.



# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Comprehensive Income

For the half-year ended 30 September 2018

	6 MONTHS TO 30 SEP 2018 \$'000	6 MONTHS TO 30 SEP 2017 \$'000
Loss for the period	(68,396)	(37,669)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Changes in the fair value of cash flow hedges, net of tax	(1,023)	783
Other comprehensive (loss)/income for the period, net of tax	(1,023)	783
Total comprehensive loss for the period, net of tax	(69,419)	(36,886)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Financial Position

As at 30 September 2018

	NOTE	AS AT 30 SEP 2018 \$'000	AS AT 31 MAR 2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents		6,007	11,218
Trade and other receivables		14,682	20,515
Inventories and consumables		38,127	35,068
Livestock		208,939	259,104
Derivatives	5	15	-
Other assets		965	696
<b>Total current assets</b>		<b>268,735</b>	<b>326,601</b>
<b>Non-current assets</b>			
Livestock		305,758	369,182
Property, plant and equipment	3	759,215	753,777
Intangible assets		2,803	2,840
Other assets		3,444	2,897
<b>Total non-current assets</b>		<b>1,071,220</b>	<b>1,128,696</b>
<b>Total assets</b>		<b>1,339,955</b>	<b>1,455,297</b>
<b>Current liabilities</b>			
Trade and other payables		31,978	27,525
Provisions		4,154	3,445
Borrowings	4	2,472	3,025
Derivatives	5	3,180	457
<b>Total current liabilities</b>		<b>41,784</b>	<b>34,452</b>
<b>Non-current liabilities</b>			
Provisions		4,540	5,215
Borrowings	4	332,961	353,363
Deferred tax liabilities		55,465	84,747
<b>Total non-current liabilities</b>		<b>392,966</b>	<b>443,325</b>
<b>Total liabilities</b>		<b>434,750</b>	<b>477,777</b>
<b>Net assets</b>		<b>905,205</b>	<b>977,520</b>
<b>Equity</b>			
Contributed equity		528,822	531,937
Reserves		416,914	417,718
(Accumulated losses)/retained earnings		(40,531)	27,865
<b>Total equity</b>		<b>905,205</b>	<b>977,520</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Changes in Equity

For the half-year ended 30 September 2018

	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	(ACCUMULATED LOSSES)/RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
<b>At 1 April 2017</b>	490,713	396,606	130,424	1,017,743
Loss for the period	-	-	(37,669)	(37,669)
Other comprehensive income	-	783	-	783
<b>Total comprehensive loss for the period</b>	-	783	(37,669)	(36,886)
<b>Transactions with owners in their capacity as owners:</b>				
Issue of share capital, net of transaction costs	30,491	-	-	30,491
Treasury shares acquired	(5,303)	-	-	(5,303)
Cost of share-based payments	-	163	-	163
<b>At 30 September 2017</b>	515,901	397,552	92,755	1,006,208
<b>At 1 April 2018</b>	531,937	417,718	27,865	977,520
Loss for the period	-	-	(68,396)	(68,396)
Other comprehensive loss	-	(1,023)	-	(1,023)
<b>Total comprehensive loss for the period</b>	-	(1,023)	(68,396)	(69,419)
<b>Transactions with owners in their capacity as owners:</b>				
Issue of share capital, net of transaction costs	-	-	-	-
Treasury shares acquired	(3,115)	-	-	(3,115)
Cost of share-based payments	-	219	-	219
<b>At 30 September 2018</b>	528,822	416,914	(40,531)	905,205

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Cash Flows

For the half-year ended 30 September 2018

	6 MONTHS TO 30 SEP 2018 \$'000	6 MONTHS TO 30 SEP 2017 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	233,110	175,718
Payments to suppliers, employees and others	(196,752)	(209,699)
Interest received	64	105
Net operating cash inflow/(outflow) before interest and finance costs	36,422	(33,876)
Payment of interest and finance costs	(6,778)	(13,599)
Net cash inflow/(outflow) from operating activities	29,644	(47,475)
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment and other assets	(11,983)	(9,590)
Proceeds from sale of property, plant and equipment	230	208
Investments in associates	(487)	(1,858)
Net cash outflow from investing activities	(12,240)	(11,240)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings net of transactions costs	5,000	26,874
Repayments of borrowings net of transactions costs	(24,500)	-
Acquisition of treasury shares	(3,115)	(5,303)
Net cash inflow/(outflow) from financing activities	(22,615)	21,571
Net decrease in cash	(5,211)	(37,144)
Cash at the beginning of the period	11,218	42,533
Cash at the end of the period	6,007	5,389

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 1. Basis of preparation and accounting policies

#### a) Corporate information

Australian Agricultural Company Limited is a company limited by shares, incorporated and domiciled in Australia. The Company's shares are publicly traded on the Australian Securities Exchange (ASX).

#### b) Basis of preparation

This general purpose condensed financial report for the half-year ended 30 September 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the financial report for the year ended 31 March 2018 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 September 2018, in accordance with the continuous disclosure obligations of the ASX listing rules.

#### c) New accounting standards and interpretations

##### *i) New and amended standards adopted*

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the following standards:

- > AASB 9 *Financial Instruments*, and
- > AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies did not have a material impact on the group's results. The Company has elected to adopt the hedging provisions of AASB 9 and has accounted for this change on a prospective basis with the remainder of AASB 9 transitioned on a retrospective basis. The Company has adopted AASB 15 on a modified retrospective basis.

##### *ii) Impact of standards issued but not yet applied*

AASB 16 *Leases* was issued in February 2016. AASB 16 eliminates the classification of leases as either 'operating' or 'finance'. There is now a single lessee model, which requires a lessee to recognise on statements of financial positions assets and liabilities for leases with terms of more than 12 months unless the underlying asset is of low value. This standard becomes mandatory for the Company's 31 March 2020 financial statements. Management have begun assessing the impact of adopting AASB 16 and are in the process of quantifying the effect on the reported financial position and performance of the Company.

#### d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the reported amounts in the financial statements. Judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses are continually evaluated. Judgements and estimates are based on historical experience and on other various factors reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Management's approach to significant judgements, estimates and assumptions is consistent with that applied for the 31 March 2018 consolidated financial report.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 1. Basis of preparation and accounting policies (continued)

#### d) Significant accounting judgements, estimates and assumptions (continued)

##### Livestock

Livestock are measured at fair value less costs to sell, with any change recognised in the income statement. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The fair value of livestock is based on its present location and condition. If an active or other effective market exists for a livestock asset in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. Where access to different markets exists, then the most relevant market is used to determine fair value. The relevant market is defined as the market "that access is available to the entity" to be used at the time the fair value is established.

If an active market does not exist then one of the following are used, when available, in determining fair value:

- > the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or
- > market prices, in markets accessible to the entity, for similar assets with adjustments to reflect differences; or
- > sector benchmarks.

In the event that market determined prices or values are not available for livestock in its present condition, the present value of the expected net cashflows from the asset are used, discounted at a current market determined rate in determining fair value.

##### Property and improvements at fair value

Property and improvements, with the exception of industrial property and improvements, are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by the Directors with reference to work performed by external independent valuers and performed on an annual basis with reference to market-based evidence, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, unless it reverses a revaluation decrement of the same asset previously recognised in the income statement. Any revaluation decrement is recognised in the income statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal of property and improvements, any revaluation reserve relating to the particular asset being sold is transferred to the capital profits reserve.

All initial lump sum payments in respect of pastoral and perpetual property leases have been classified as land. The remaining lease payments are nominal and are therefore expensed to the income statement as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 1. Basis of preparation and accounting policies (continued)

#### d) Significant accounting judgements, estimates and assumptions (continued)

##### Property, Plant and Equipment at cost

Plant and equipment and industrial property and improvements are stated at historical cost less accumulated depreciation and any accumulated impairment losses. We review the carrying values of plant and equipment and industrial property and improvements for impairment when events or changes in circumstances indicate the current carrying value may not be recoverable.

The Livingstone Beef CGU is the only location with property and improvements measured under the cost model by the Company per AASB 116 *Property, Plant and Equipment*. Under the requirements of AASB 136 *Impairment of Assets*, at each reporting period an assessment of internal and external factors must be made to determine whether there are indicators of impairment. Where indicators exist, a formal estimate of the recoverable amount of these assets is undertaken.

During H1FY19 operations were suspended at Livingstone Beef. Management have recalculated the recoverable amount of the CGU based on the updated conditions, using Level 3 fair value inputs per AASB 13 *Fair Value Measurement*. The recoverable amount was materially consistent with the current carrying value of the CGU and as such no adjustment was made to the carrying value of Livingstone Beef at 30 September 2018.

The calculation of the recoverable amount for Livingstone Beef requires management to make key estimates with relation to a number of assumptions that are inherently uncertain. The recoverable amount is sensitive to changes in these key assumptions and accordingly the estimate of the recoverable amount could change in future reporting periods.

### 2. Segment information

#### Identification of reportable segments

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Company, that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director/Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the nature of the product produced and the reporting structure within the Group. Discrete financial information for each of the operating segments is reported to the Managing Director/Chief Executive Officer (MD/CEO) on at least a monthly basis.

#### Reportable segments

Under the internal reporting framework, the financial results of the Livingstone processing plant are disclosed separately in monthly management reports from the rest of the Company. This results in the following operating segments:

- > Livingstone Beef processing plant; and
- > AACo excluding Livingstone.

To get to a final segment result, the above two segments results include a corporate overheads expense allocation.

#### Accounting policies and inter-segment transactions

The accounting policies used in reporting segments are the same as those contained in the financial statements and in the prior period, except as follows:

- > Inter-entity sales

Inter-entity sales are recognised based on arm's length market prices.

Operating Profit is the key indicator used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised livestock and inventory valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Operating Profit assumes all Livestock inventory is valued on a \$/kg live-weight (LW) basis and is derived by adjusting statutory EBITDA to substitute the movement in inventory at market value with the movement in inventory at standard cost.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 2. Segment information (continued)

The following table presents the revenue and profit information regarding operating segments (incorporating a reconciliation of Operating Profit to Statutory NPAT) for the six months to 30 September 2018 and 30 September 2017. Segment assets and liabilities are not reported to the MD/CEO and therefore segment assets and liabilities are not separately disclosed.

30 SEP 2018	AACO EX LIVINGSTONE \$'000	LIVINGSTONE BEEF \$'000	ELIMINATIONS \$'000	TOTAL \$'000
Segment revenue	204,368	31,171	(16,342)	219,197
Inter-segment revenue	(16,342)	-	16,342	-
Revenue from external customers	188,026	31,171	-	219,197
<b>Operating Profit</b>	<b>34,555</b>	<b>(9,714)</b>	<b>-</b>	<b>24,841</b>
Reverse: Movement in inventory at cost of production	1,914	1,477	-	3,391
Other income/expenses	2,329	142	-	2,471
Change in livestock value	(119,494)	5,905	-	(113,589)
<b>Statutory EBITDA loss</b>	<b>(80,696)</b>	<b>(2,190)</b>	<b>-</b>	<b>(82,886)</b>
Depreciation and amortisation	(5,286)	(738)	-	(6,024)
Gain on equity investments	180	-	-	180
<b>Statutory EBIT loss</b>	<b>(85,802)</b>	<b>(2,928)</b>	<b>-</b>	<b>(88,730)</b>
Net finance costs				(8,639)
Income tax benefit				28,973
<b>Net loss after tax</b>				<b>(68,396)</b>

30 SEP 2017	AACO EX LIVINGSTONE \$'000	LIVINGSTONE BEEF \$'000	ELIMINATIONS \$'000	TOTAL \$'000
Segment revenue	167,081	57,017	(26,869)	197,229
Inter-segment revenue	(26,869)	-	26,869	-
Revenue from external customers	140,212	57,017	-	197,229
<b>Operating Profit</b>	<b>11,263</b>	<b>(4,414)</b>	<b>-</b>	<b>6,849</b>
Reverse: Movement in inventory at cost of production	(22,223)	(11,205)	-	(33,428)
Other income/expenses	(828)	334	-	(494)
Change in livestock value	(21,854)	12,442	-	(9,412)
<b>Statutory EBITDA loss</b>	<b>(33,642)</b>	<b>(2,843)</b>	<b>-</b>	<b>(36,485)</b>
Depreciation and amortisation	(5,643)	(3,376)	-	(9,019)
Gain on equity investments	-	-	-	-
<b>Statutory EBIT loss</b>	<b>(39,285)</b>	<b>(6,219)</b>	<b>-</b>	<b>(45,504)</b>
Net finance costs				(8,151)
Income tax benefit				15,986
<b>Net loss after tax</b>				<b>(37,669)</b>



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 3. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 30 September 2018, the Company acquired assets with a cost of \$11.4 million (six months to 30 September 2017: \$8.8 million). No property acquisitions were made during the period.

Assets with a net book value of \$0.01 million were disposed of by the Company during the six months ended 30 September 2018 (six months to 30 September 2017: \$0.04 million). No sales of property were made during the period.

### 4. Borrowings

	30 SEP 2018 \$'000	31 MAR 2018 \$'000
<b>Current</b>		
Obligations under finance leases	2,472	3,025
<b>Non-current</b>		
Obligations under finance leases	3,484	4,547
Secured bank loan facility	329,477	348,816
	<u>332,961</u>	<u>353,363</u>

#### Secured bank loan facility

Facility A loans are repayable on 8 September 2022 and Facility B loans are repayable on 8 March 2020. The interest on these facilities is charged at the applicable BBSY rate + Margin. It is intended that the loans will be renewed at maturity date. The facility is currently drawn down by \$330.7 million (31 March 2018: \$350.2 million) and is offset in the Statement of Financial Position by a prepaid facility participation fee of \$1.2 million (31 March 2018: \$1.4 million).

Financing facilities are provided on a secured basis, with security given over all fixed and floating assets. Financial covenants are in place over the Company's Loan to Value Ratio (LVR). The following financing facilities are available:

	30 SEP 2018 \$'000	31 MAR 2018 \$'000
Total available under Facility A and Facility B	500,000	500,000
Guarantee facility	3,000	3,000
Drawn-down (including bank guarantees)	(332,154)	(351,654)
Unused	<u>170,846</u>	<u>151,346</u>

### 5. Derivatives

	30 SEP 2018 \$'000	31 MAR 2018 \$'000
<b>Current assets</b>		
Foreign currency contracts	15	-
<b>Current liabilities</b>		
Interest rate swap contracts	1,388	355
Foreign currency contracts	1,792	102
	<u>3,180</u>	<u>457</u>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 5. Derivatives (continued)

#### Fair values

As at 30 September 2018 and 31 March 2018, the only financial instruments recognised at fair value were interest rate swaps, forward currency contracts. These are valued using a 'level 2' method, which estimates fair value using inputs that are observable either directly (as prices) or indirectly (derived from prices). The carrying amount of all other financial assets and liabilities approximates the fair value.

#### Forward currency exchange contracts

Foreign currency contracts are attributed to forecast meat sales. As these contracts are hedge accounted, the effectiveness was required to be assessed in terms of AASB 9 *Financial Instruments* from 1 April 2018 due to the Company's decision to adopt AASB 9 rather than electing to continue applying AASB 139 *Financial Instruments*. The effective portion of the movement accounted for in Other Comprehensive Income and the ineffective portion posted to the income statement. Forward currency contracts can have maturities of up to 36 months. These contracts are in US dollars. The total notional value of these contracts at 30 September 2018 was AUD \$48.6 million (31 March 2018: AUD \$11.4 million). There was no material impact from the implementation of AASB 9, and therefore no prior period adjustments have been recorded.

#### Interest rate swap contracts

The Company has entered into interest rate swaps which are economic hedges. The swaps have been designated as effective interest rate swaps and therefore satisfy the accounting standard requirements for hedge accounting. The net fair value loss on interest rate swaps during the six months to 30 September 2018 was \$1.4 million (31 March 2018: loss of \$0.4 million). The Company fair values these contracts by comparing the contracted rate to the future market rates for contracts with the same length of maturity.

As at 30 September 2018, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	30 SEP 2018 \$'000	31 MAR 2018 \$'000
0-1 years	-	-
1-5 years	235,000	235,000

### 6. Equity securities issued

#### 30 September 2018

No shares were issued under the AACo performance rights plan during six months to 30 September 2018.

#### 30 September 2017

On 1 August 2017, the Company issued 87,037 shares under the AACo performance rights plan for nil consideration. On 20 April 2017, the AA Trust converted 65 of the remaining 101 Convertible Notes into 28,295,316 fully paid ordinary shares.

Subsequent to the release of the September 2017 results, on 30 October 2017 the AA Trust converted the remaining 36 Convertible Notes into 15,673,981 ordinary shares. There are no outstanding Convertible Notes on issue as at 30 September 2018.

#### Dividends

No dividend was declared or paid during the six months to 30 September 2018 (six months to 30 September 2017: \$nil).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2018

### 7. Commitments

#### Capital commitments

Capital expenditure had been contracted in respect of property, plant and equipment for \$0.06 million as at 30 September 2018 (31 March 2018: \$0.5 million).

#### Other commitments

Forward purchase contracts had been entered into for \$19.8 million worth of grain commodities and \$29.5 million worth of cattle as at 30 September 2018 (31 March 2018: \$14.6 million worth of grain and \$21.5 million worth of cattle). The contracts are expected to be settled within 12 months from balance date.

### 8. Related party disclosures

There have been no significant transactions with related parties during the six-month period to 30 September 2018 (30 September 2017: none).

### 9. Events after the balance sheet date

There have been no significant events after the balance date which require disclosure in the financial report.

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Australian Agricultural Company Limited, I state that:

In the opinion of the Directors:

- a) The condensed consolidated financial statements and notes set out on pages 8 to 19 are in accordance with the *Corporations Act 2001*, including:
  - i. Giving a true and fair view of the Group's financial position as at 30 September 2018 and its performance for the half-year ended on that date;
  - ii. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



D. McGauchie AO

Chairman

Sydney

20 November 2018

# INDEPENDENT AUDITOR'S REVIEW REPORT



## Independent Auditor's Review Report

To the shareholders of Australian Agricultural Company Limited

### Report on the Half-year Financial Report

#### Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Australian Agricultural Company Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Australian Agricultural Company Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 September 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 30 September 2018;
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' Declaration.

The **Group** comprises Australian Agricultural Company Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

# INDEPENDENT AUDITOR'S REVIEW REPORT



## Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Agricultural Company Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Simon Crane  
Partner

Brisbane  
20 November 2018

# COMPANY INFORMATION

## Name of Entity

**Australian Agricultural Company Limited**

## ABN

15 010 892 270

## Registered Office

### Principal Place of Business

Level 1, Tower A  
Gasworks Plaza  
76 Skyring Terrace  
Newstead QLD 4006

Ph: (07) 3368 4400  
Fax: (07) 3368 4401  
[www.aaco.com.au](http://www.aaco.com.au)

## Share Registry

### Link Market Services Limited

Level 21, 10 Eagle Street  
Brisbane QLD 4000

Ph: 1300 554 474  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

AACo shares are quoted on the Australian Securities Exchange under listing Code AAC.

## Solicitors

### Allens Linklaters

Level 26, 480 Queen Street  
Brisbane QLD 4000

## Auditors

### KPMG

Level 16  
71 Eagle Street  
Brisbane QLD 4000